

FRAUD AWARENESS AND PREVENTION

LIHEAP Training Conference
September 9, 2014

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Office of the Comptroller

Agenda

Fraud Awareness

Fraud Triangle

Types of Fraud

Red Flags

Detection

Consequences

Prevention

Fraud Awareness and Prevention Training

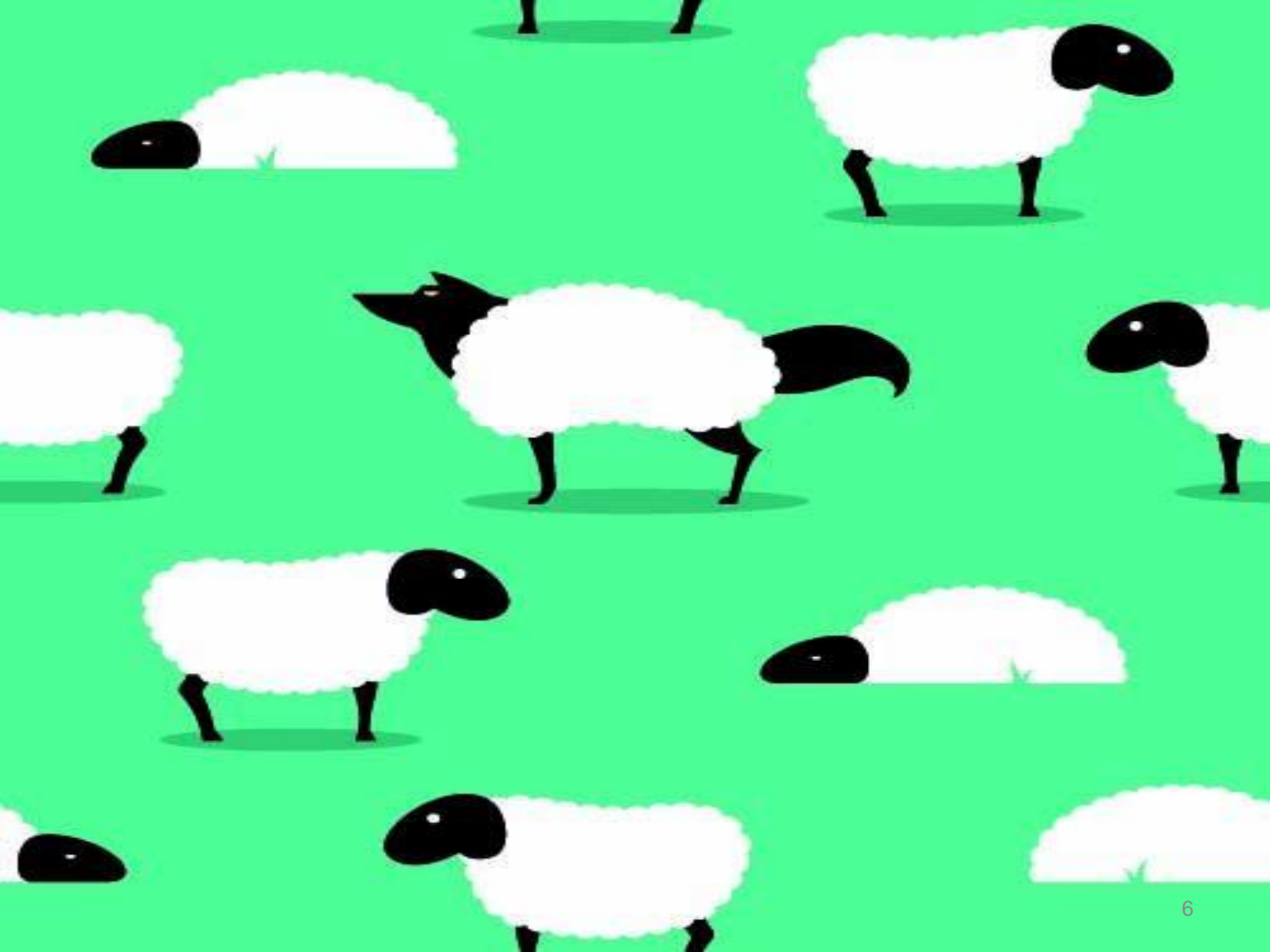
Fraud Awareness and Prevention Training is part of The Office of the Comptroller's mission to assist departments in assuring taxpayers that funds are expended as intended.

“Fraud prevention and detection must be a part of each employee's job. We must not be complacent. Incorporate into your business practices or performance metrics procedures to detect and prevent fraud.” *Martin Benison, Comptroller*



- Any intentional illegal act characterized by deceit, concealment, or violation of trust
- Fraud is committed by individuals or organizations to:
 - obtain money, property, or services
 - avoid payment or loss of property or services
 - secure personal or business advantage





Look at all these smiling faces. What do they have in common?





**Former Casino
HR Manager In
Pleads Guilty To
Embezzling
\$400K**



**Embezzled \$1 Million
From Insurance
Payments For Nevada
Fire Victims**



**Washington State
Cheerleader Charged
In \$255K
Embezzlement**



**Head Of Union Indicted
For Allegedly Embezzling
More Than \$100K**



**Priest Admits
To Embezzling \$1.2 Million**



**Massive
Embezzlement
Admitted At Financial
Firm**



**Arrested For Allegedly
Embezzling \$1.6 Million**



**Former ICE Intelligence Chief
Accused Of Embezzling More
Than \$180K**



**Executive Accused Of
Embezzling \$300K**



**Guilty To
Embezzling Nearly
\$500K From
Hospital
Association**



**Embezzled Nearly
\$100K From
Boosters Club**



**Former Trooper
Accused Of
Embezzling
More Than
\$90K**



**Corporate Counsel of Pennsylvania
Hospital Charged With Embezzling
\$1.7 Million**



**Municipal Bookkeeper
Charged With Embezzling
\$369K**

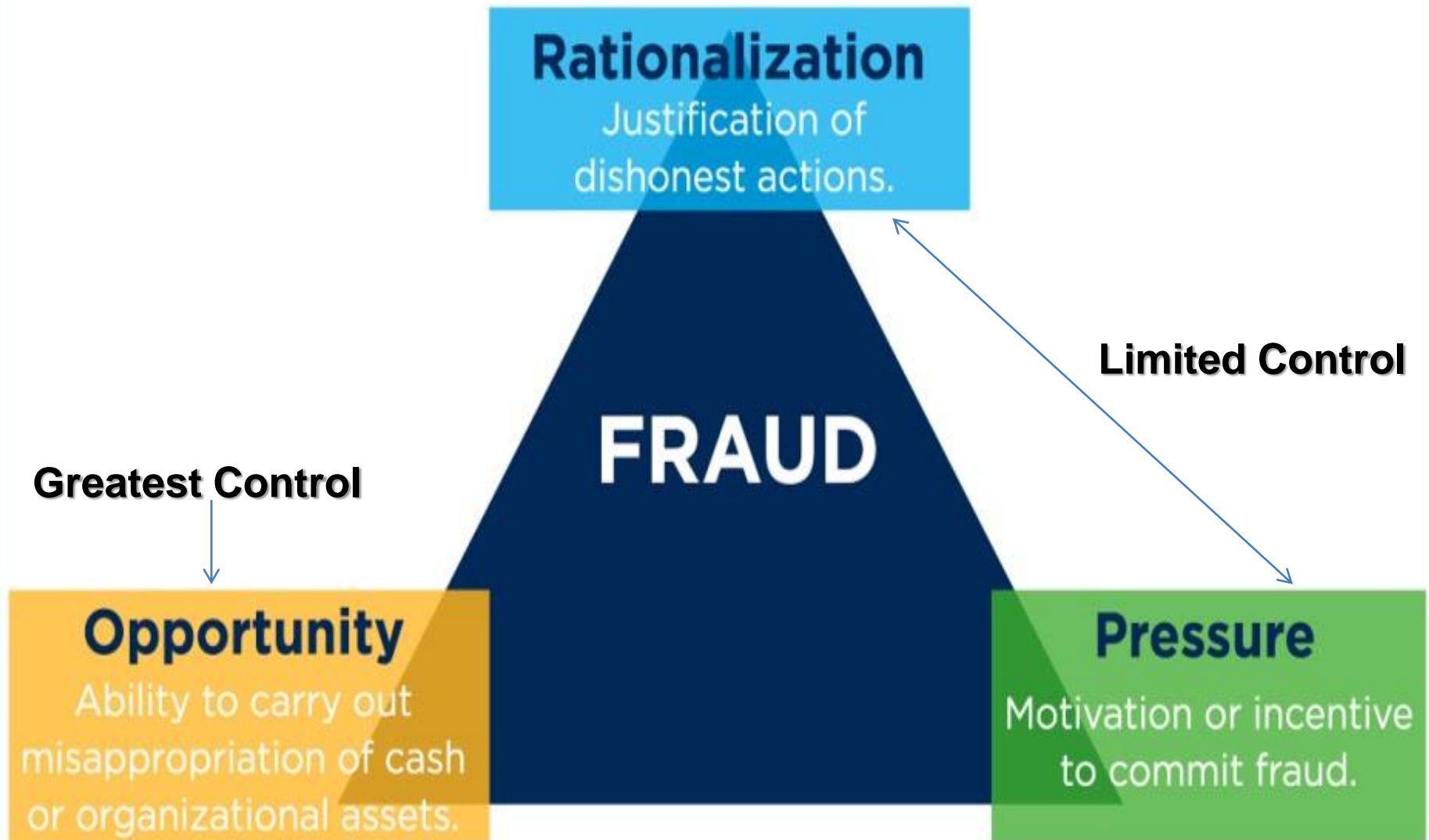


**Police Officer Charged With
Embezzling \$151K From Fallen
Officer's Fund**

10-80-10 Rule

- The 10-80-10 “rule” refers to a general assumption of the breakdown of the population and the likelihood of fraud occurrences:
- **10%** of the population will NEVER commit fraud
- **80%** of the population might commit fraud given the right combination of **opportunity, pressure, and rationalization**
- **10%** of the population are actively looking at systems and trying to find a way to commit fraud

The Fraud Triangle



Capability



Opportunity opens the door...
Motivation and Rationale propel the individuals toward the door...
Capability takes them through the door...



Three Components

Opportunity

- Internal Controls
 - Non-existent
 - Un-enforced
 - Un-monitored
 - Ineffective
- Poor “Tone at the Top”
- No segregation of duties



Rationalization

“I don’t get paid what I am worth!”

“If I can get away with it, they deserve to lose the money.”

“Everyone else is doing it.”

“I intended to pay it back.”

“Nobody will miss the money”

Pressure

- Greed
- Financial Gain
- Financial Difficulty
- Illicit Activities: Gambling, Drugs
- Inadequate Staffing
- Unrealistic Financial Targets

Capability



- **Intelligence**
 - Smart and creative enough to understand and exploit the internal control weakness
- **Ego**
 - Sense of superiority
 - Confident that the fraud will not be detected
 - Confident in ability to mislead others
- **Coercion**
 - Ability to influence others to assist, to be complicit in or conceal the fraud
- **Deceit**
 - Lie or divert convincingly
- **Stress management**
 - Adept at stress management
 - Ability to compartmentalize
 - The act of committing and continuing to conceal fraud provides ongoing stress

“Can’t eat just one”



- Approximately 90% of perpetrators did not stop at one fraudulent transaction
- Average duration one to five years
- 91 percent of perpetrators **did not** have a prior criminal record

THE BIG THREE

Asset Misappropriation

- Theft of cash, inventory, services, and other assets

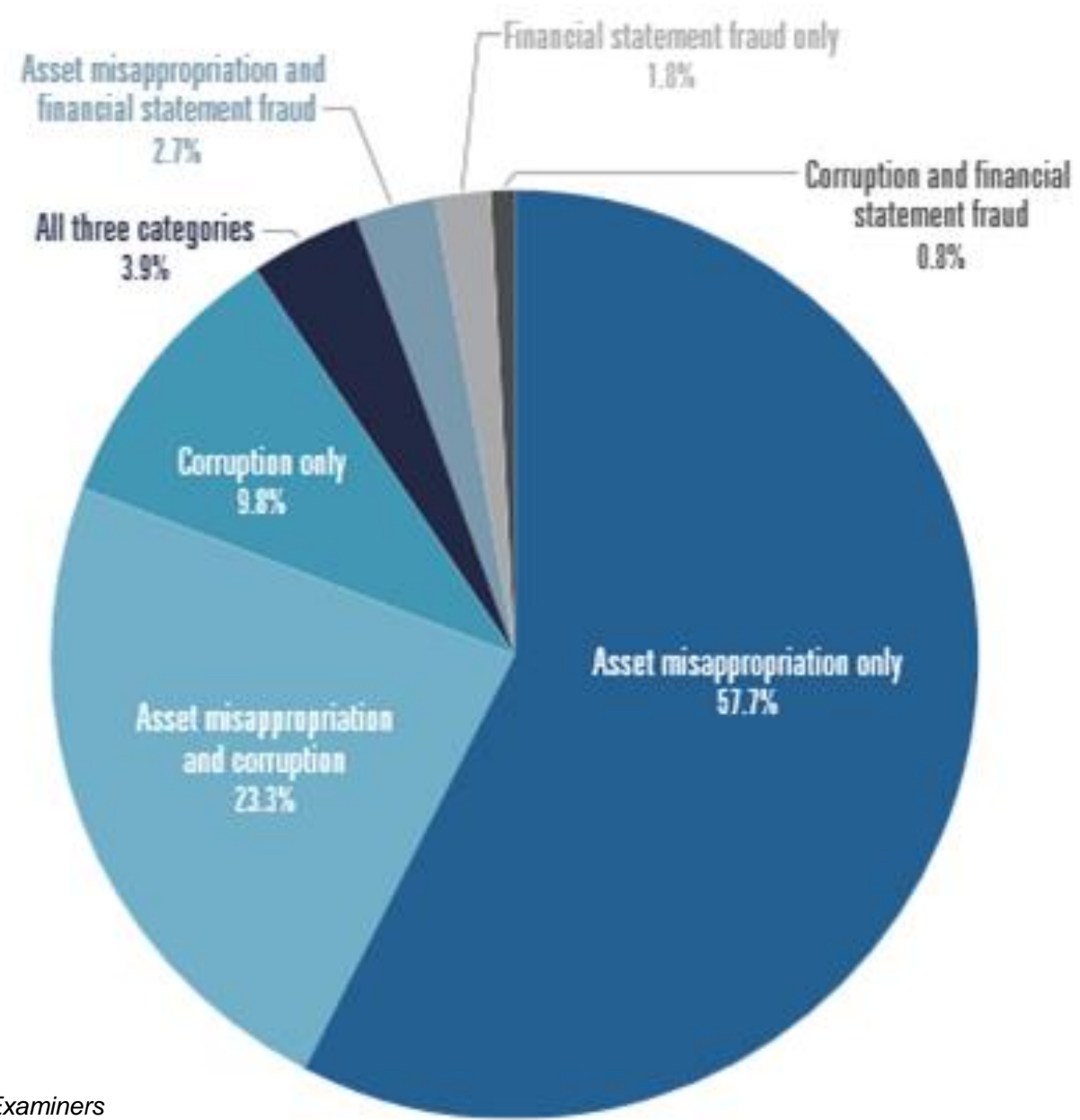
Corruption

- The act of an official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefit for himself or for another person, contrary to duty and the rights of others.

Fraudulent Statements or Reporting

- Financial and Non-financial

Figure 8: Overlap of Fraud Schemes



Source: Association of Certified Fraud Examiners
2014 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com

Asset Misappropriation



Money



**Personally Identifiable Information
PII**



Inventory/Property

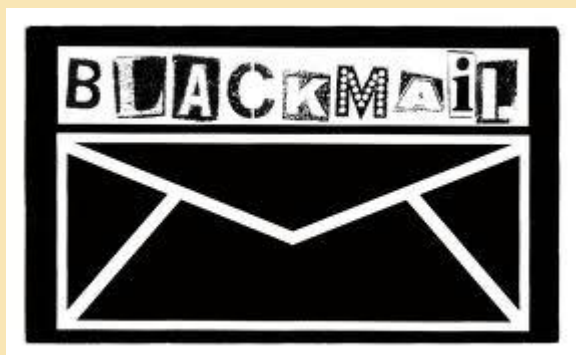


Time Theft



Waste & Abuse

Corruption



Bribery



Conflict of Interest



Collusion



Extortion

Fraudulent Statements



Misrepresentation



Misapplication of Accounting Rules

Government Fraud

- Bid Rigging
- Bribery
- Conflict of Interest
- Minority Business Enterprise / Disadvantaged Business Enterprise or Women-Owned Business Enterprise Fraud
- Kickbacks or Unlawful “Pay to Play”
- Materials, Equipment and Supplies Overcharging
- Product Substitution
- Quality-Control Testing
- Time Overcharging
- Unlawful Use of Public Assets

Potential Fraud Opportunities at LIHEAP

- Client
 - Hiding income
 - Household membership
 - Forging direct pay checks

Potential Fraud Opportunities at LIHEAP

- Staff
 - Omitting client information
 - Using client PII to sell, etc.
 - Ghost clients
 - Taking check stocks
 - Charging application fees
 - Former employee having access to software
 - Receiving kickback from vendor

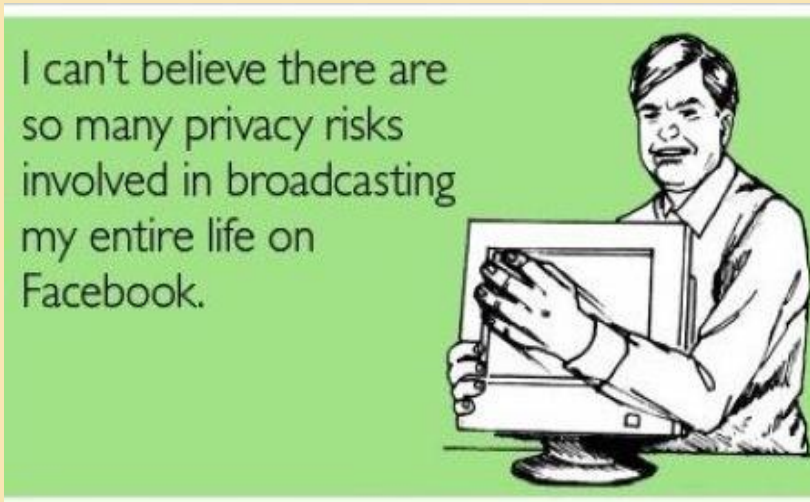
Potential Fraud Opportunities at LIHEAP

- Vendor
 - Charging a higher amount than the lowest allowable (MOR or retail)
 - Doctoring delivery tickets
 - Providing financial incentive to LIHEAP staff to overlook unallowable charges, double charges, incorrect pricing, etc.

Cybercrime

- Tablet and smartphone users
 - 32% do not update their operating system when available
 - 62% don't secure devices with password
 - 32% save login information on their device
- Price tag of consumer cybercrime in the is **\$37billion** annually
- Everyday 1 million people become cybercrime victims
- The majority of identity theft incidents involved the fraudulent use of existing account information, such as credit card or bank account information

Social Engineering



Social Media - TMI?

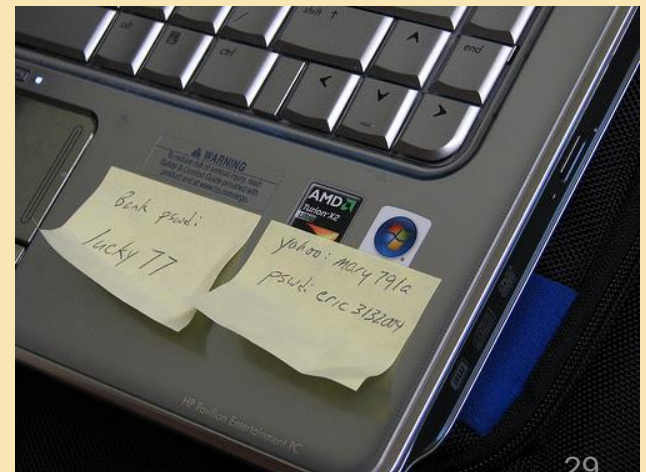
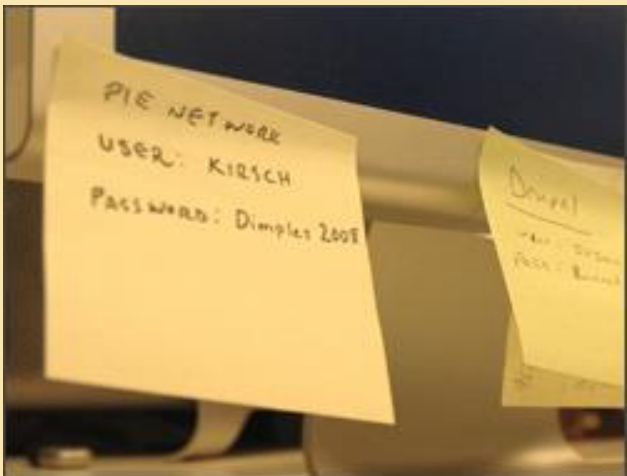


- 68% of social media users share their birthday
 - 45% share month, date and year
- 63% share their high school name
 - High school mascot
- 30% share their phone number or pet's name
- *All commonly used to verify identity*

Potential for Social Engineering at LIHEAP

- Impersonation
- Intimidation
- Urgency
- Compliments, flirts
- Shoulder surfs
- Access to files, paper on desk

Password Controls



WORST PASSWORDS OF 2013

rank	password	change from 2012
#01	123456	⬆️1
#02	password	⬇️1
#03	12345678	—
#04	qwerty	⬆️1
#05	abc123	⬇️1
#06	123456789	new
#07	111111	⬆️2
#08	1234567	⬆️5
#09	iloveyou	⬆️2
#10	adobe123	new



legend:

unchanged — up ⬆️# down ⬇️#

The Worst Password?

- Not having one....



(@n Y0u R3@d Th1\$?

- Use a strong password containing numbers, letters and special characters
 - Start with a sentence
 - Remove the spaces between the words in the sentence
 - Turn words into shorthand or intentionally misspell a word
 - Add length with numbers or special characters
 - its5ocloks0mewherE!
- Don't be obvious (names, birthdays, SS#)
- Change password every two months
- Don't let the browser save or "remember" passwords
- Don't use the same password for different accounts

Password Checker

<https://www.microsoft.com/security/pc-security/password-checker.aspx>

Check your password

Your online accounts and computer files are more secure when you use strong passwords to help protect them.

Test the strength of your passwords: Type a password into the box.

Password:

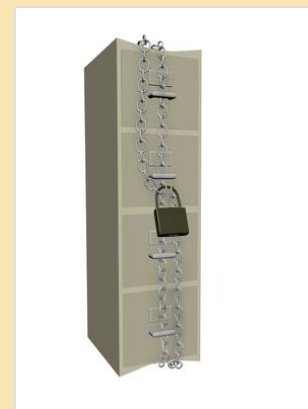
Strength:



Hard Copy / Paper Files

Physical Access to paper files:

- Are paper files with PII locked up or out in the open for all to see?
- Contracts
- Pay stubs
- Tax files
- Personal files (credit card bills)



Disposal:

- Do you throw paper with PII in the recycling or trash barrel? – Dumpster Divers
- Do you have a shredding policy?
- [MGL CHAPTER 93 I. DISPOSITIONS AND DESTRUCTION OF RECORDS](#)



LIHEAP Paper Files

- Types of documents
 - Birth certificates
 - Social Security Numbers
 - Contact information
 - Address
 - Income
 - Bank statements
- Guarding documentation
- Proper disposal of documentation

Information Technology

Logical Access to Systems



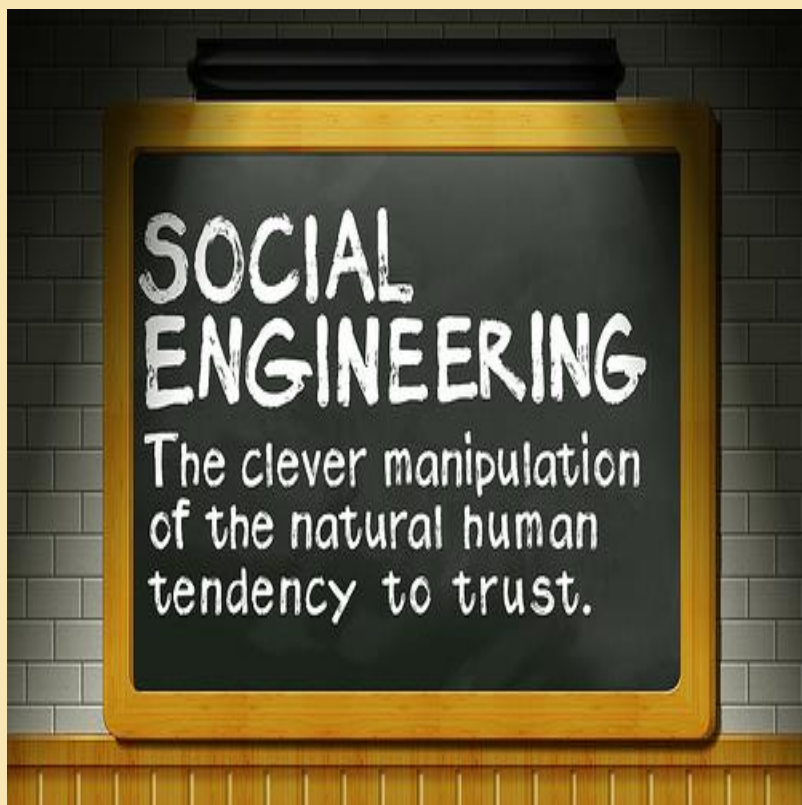
- Is it appropriate? Are the roles appropriate?
- Is it reviewed?
- Is it terminated in a timely manner?
- Is sensitive data encrypted?
- Do sessions time out?
- Do passwords expire? Can they be repeated?

Physical Access



- How secure is your server room?
- Do you have a laptop, equipment inventory system?
- **Does your copy machines store a digital image of every document scanned or copied?**
- Is weekend work allowed or need to be pre-approved?
- Who has building access?

Don't be a Victim!



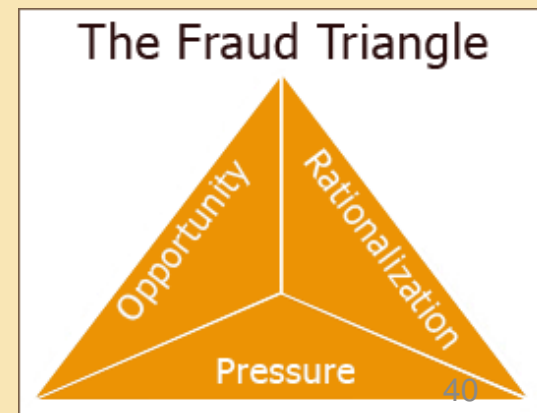
- Be suspicious of unsolicited phone calls or emails from individuals asking about employees or other internal information
- If an unknown individual claims to be from a legitimate organization:
 - Try to verify identity directly with the company
 - Get contact information from previous statements or your vendor contact records
- Do not reveal personal or financial information in email and do not respond to email solicitations for this information
- Be aware of links
- Pay attention to the URL of a web site
- Do not open attachments from unknown individuals
- Install anti-virus software, firewalls, and email filters

Trust, But Verify & Practice Professional Skepticism



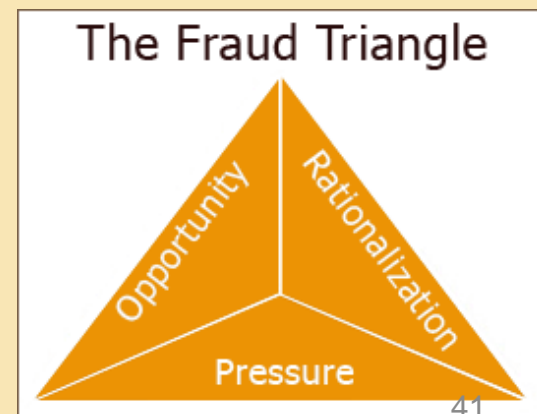
Do you have....?

- Poor physical safeguards over cash and other assets
 - Small items with a high cash value (laptop, thumb drive, smartphone)
 - Easily convertible assets (tools, vehicles, PII)



Do you have....?

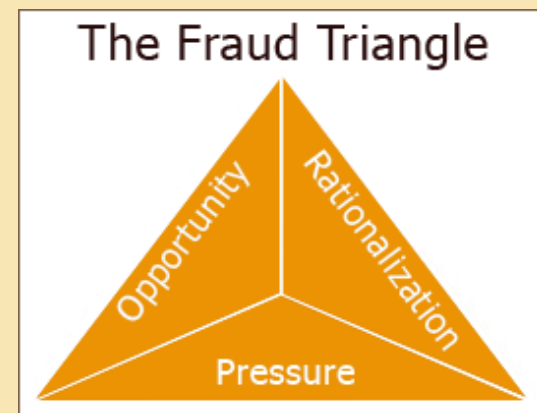
- Managers and employees with access to significant assets
- Management with ability to override
- Lack of mandatory time off for employees performing key control functions
- Inadequate supervision, especially where employees are in remote locations
- Too much information on your website



Lack of segregation of duties

Same employee:

- Opens mail with checks
- Records checks received
- Prepares bank deposit
- Deposits money into bank
- Reconciles bank statements

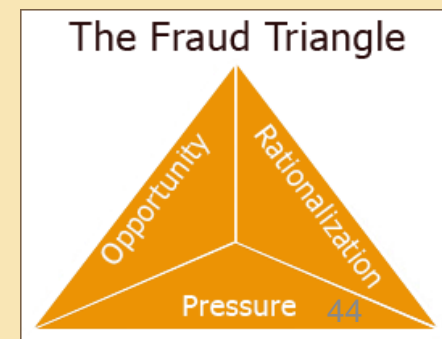


LIHEAP Segregation of Duties

- Application processing
 - Client
 - Employee
- Payments
- Appeals
- State and agency policies

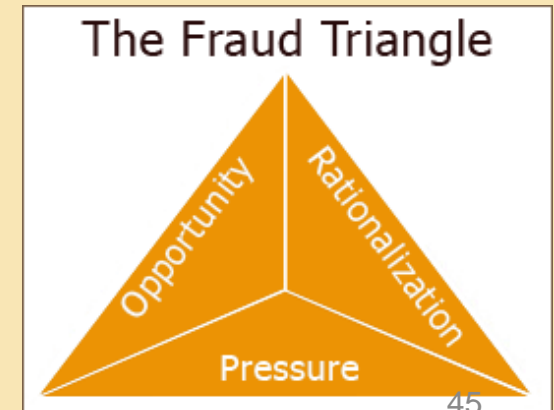
Resource Constraints

- Not enough staff to perform the current work
- Not enough staff to supervise work performed
- Lack of funds for monitoring tools
- Lack of staff time to devote to fraud prevention



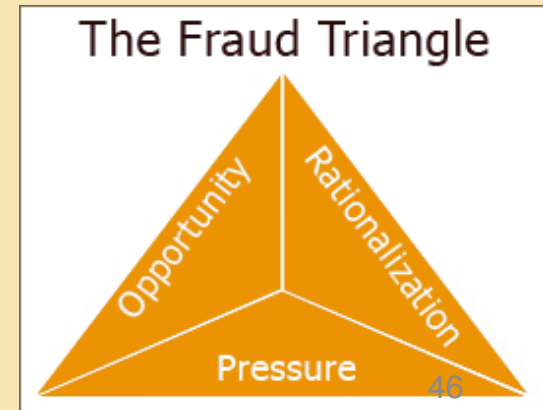
Transition Period

- Change in leadership
- Reorganization
- Layoffs
- Upgrades / Promotions
- New programs
- New programs without new resources
- New sources of funding



Change in Employee Behavior

- Unwilling to take vacation / time off
- Working off hours: early, late, weekends
- Change in lifestyle, suddenly living beyond means
- Overly protective of information and reluctant to train others
- Refusing promotion to a different area
- Social relationship with vendor



Risks, Red Flags and Controls

Risk	Red Flags	Controls
Cash Theft	<ul style="list-style-type: none">• Infrequent bank deposits, allowing cash to accumulate.• Consistent shortages in cash on hand.• Consistent fluctuations in bank account balances.• Lack of regular physical inventories carried out by independent personnel.• Goods received by same person who orders them.• Unusually high number of voids or returns.	<ul style="list-style-type: none">• Require daily bank deposit receipts and deposit preparation.• Write policies that segregate duties between receiving cash and posting to accounts.• Security cameras with recording devices.• Performing regular and random inventory counts to uncover issues of theft or waste quickly.• Require approval of a manager for voids or returns.• Inventory Control: Have a sign in/out sheet on all supplies/assets susceptible to theft.

Activity

Fraud Risk	Red Flags	Controls

Office of the Comptroller Resources

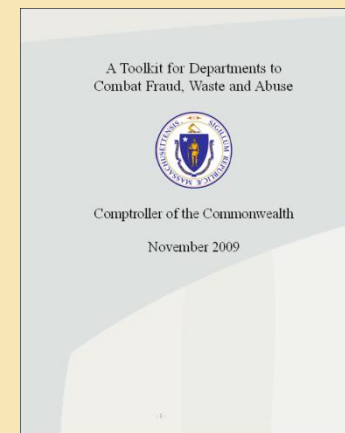
Please visit the Fraud Prevention section of our Internal Controls Page for:

[Tri-fold Brochure available for distribution to staff](#)

[Toolkit for Departments
\(to Combat Fraud, Waste and Abuse\)](#)

- Covers common “Red Flag” or likely Fraud Indicators experienced by government entities
- Contains a Checklist for Departments to Combat Fraud, Waste and Abuse

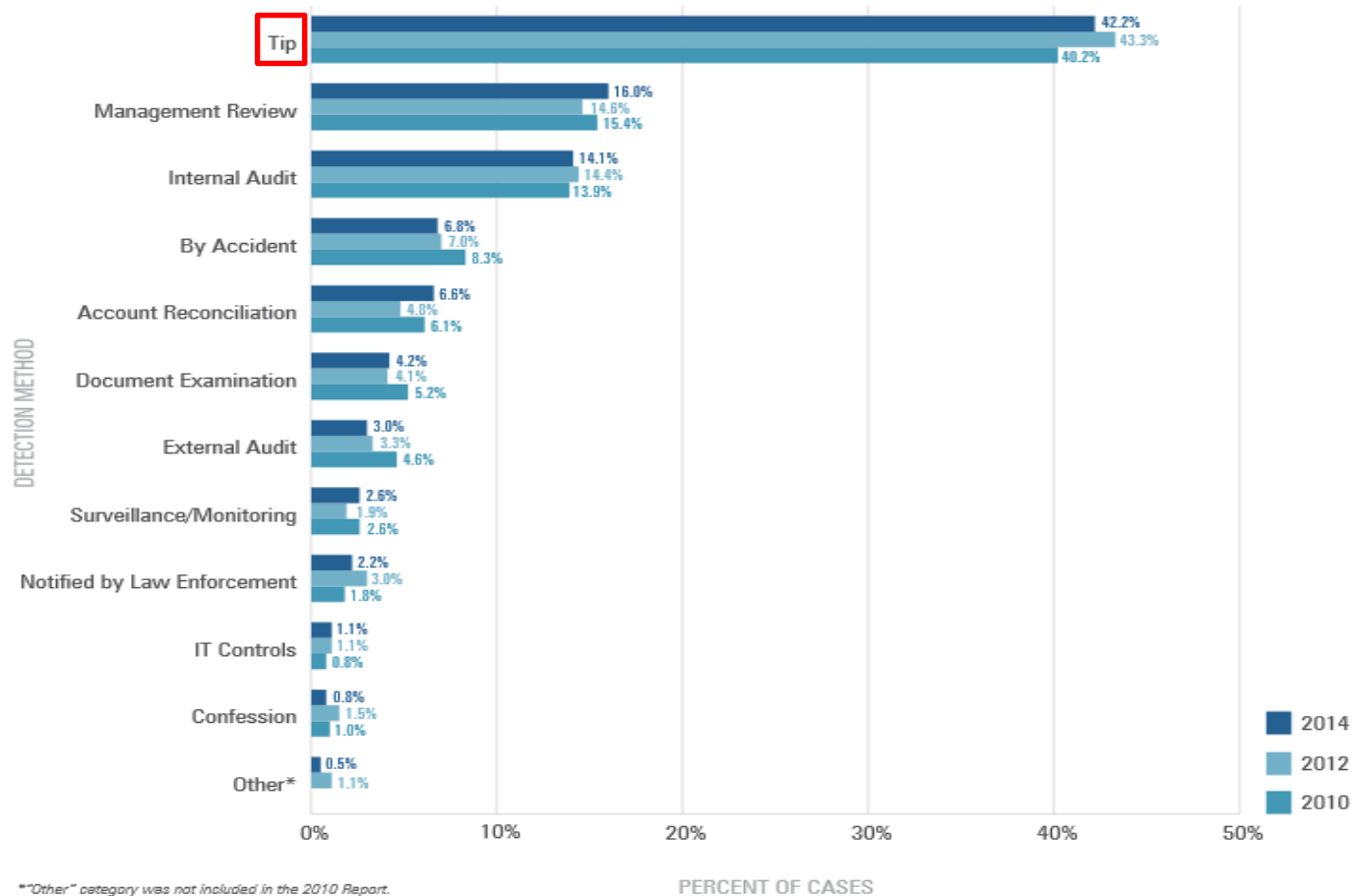
<http://www.mass.gov/osc/guidance-for-agencies/internal-controls.html>





Initial Detection of Fraud

Figure 11: Initial Detection of Occupational Frauds



Whistleblower Mechanisms

Commonwealth Hotline Numbers:



- Inspector General (800) 322-1323
Confidential hotline to report suspected fraud, waste or abuse in government
- Attorney General - Fair Labor Helpline (617) 727-3465
To report violations of minimum wage and overtime laws and requirement for timely payment of wages
- Division of Unemployment Assistance (800) 354-9927
To report unreported wages or persons collecting benefits while working
- Office of the State Auditor (617) 727-6200
For state agencies to report variances, shortages or thefts of funds or property



The Official Website of the Comptroller of the Commonwealth (CTR)

Comptroller of the Commonwealth

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in Office of the Comptroller

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Organization Charts

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Employment Opportunities

Key Resources

Statewide Key Contact Lists

Whistleblower Hotlines

Department Advisory Group

Bills and Laws

State Budget

Commonwealth Stabilization Fund

Help Desk

Online Services

[PayInfo](#)

[VendorWeb](#)



Prevention of Fraud, Waste, and Abuse

Fraud prevention and detection must be a part of each employee's job. The Office of the Comptroller provides tools to assist you in preventing fraud.

[LEARN MORE](#)



Martin Benison
Comptroller

Welcome to the Office
of the Comptroller



News & Updates

Daily MMARS News

eUpdates

Public Meeting Notice 

Related Links

Massachusetts Open Checkbook

(ANF) Administration and Finance
Bulletins

Whistleblower Protections

Chapter 149, Section 185 of the General Laws protects public employees who wish to make disclosures to expose violations of law or risk to public health, safety or environment in a “whistleblower” mode.

- Who is Protected?
 - Employees of the Commonwealth
- What are whistleblowers protected from?
 - Firing
 - Suspension
 - Demotion
 - Any adverse employment action being taken as a reprisal
- What kinds of disclosures are protected?
 - Disclosure of any activity or practice that is in violation of a law, rule or regulation, or poses a risk to public health, safety or the environment

Consequences of Fraud



The General Laws of Massachusetts

PART I. ADMINISTRATION OF THE GOVERNMENT

TITLE III. LAWS RELATING TO STATE OFFICERS

CHAPTER 29. STATE FINANCE

[Chapter 29: Section 66. Violation of state finance laws; penalties](#)

Section 66. Any officer or employee who knowingly violates, authorizes or directs another officer or employee to violate any provision of this chapter, or any rule or regulation promulgated thereunder, or any other provision of law relating to the incurring of liability or expenditure of public funds, shall be punished by a fine of not more than one thousand dollars or by imprisonment in a jail or house of correction for not more than one year, or both.

Damage to Public Image / Reputation

Traditional News Media

- Newspapers
- TV
- Radio



The Boston Globe



Electronic Word of Mouth

- Twitter
- Facebook
- Blogs
- Message Boards



Sound off – Tell us how you really feel



READER COMMENTS »

SPORTS

**MASTERS
HEAVEN
FOR ANGEL
CABRERA**

PAGE 71



**BOSTON
Herald**

WEDNESDAY, APRIL 22, 2009 \$1.00 (COVER PRICE) \$1.00 (BOSTON, MASS.)

BOSTON, MA

CURRENT CONDITIONS (updated 8:25 am EST)

 Temp: 22° F, -6° C
Relative humidity: 68%
Wind direction/speed: W, 8 mph





NEWSWIRE: Capt. Richard Phillips is safe aboard the US Coast Guard cutter yesterday after Navy rescuers dramatically rescued the Navy seaman, who was held captive for five days by Somali pirates.

MOST STATE EMPLOYEES HAVE A PRODUCTIVE DAY

**“Kevin was a few minutes
early today and did a
fine job” says boss.
Ticker Tape Parade
Set for Saturday**

Complete Coverage Pages 3-5

The Boston Globe

MONDAY, JANUARY 25, 2010

Internal Controls Followed

Tech bust, globalization
triggered the decline

By Robert Gavin
GLOBE STAFF

Manufacturers watched a sobering milestone last month: for the first time since World War II, the state ended a decade with fewer jobs than it had at the beginning.

The decade started with a technology bust and ended with a historic national recession. Job loss was spread over most of the state's major employment sectors, as the decade's quickening pace of globalization, competition, and technological change pressured the Massachusetts economy. Manufacturing took the biggest hit, shuffling one job

in three.

"The job creation regime for Massachusetts is broken," said Michael Goodman, an economic analyst and professor of public policy at the University of Massachusetts Lowell. "We have a high tech, innovative economy, but one that is not creating enough jobs."

In the decade from 1999 through 2009, average employment in the state fell by 55,000 jobs, or nearly 2 percent. The employment base grew by a percent in the 1990s and by 20 percent in the 1980s.

The jobless decade was not unique to Massachusetts. A dozen other states lost jobs over the past 10 years, led by Michigan, where the imploding auto industry drove

Average annual employment in Massachusetts at end of decades
in millions

Decade	Average annual employment (in millions)
1930	1.37m
1940	1.45m
1950	1.55m
1960	1.65m
1970	1.75m
1980	1.85m
1990	1.75m
2000	1.85m
2009	1.79m

SOURCE: U.S. Labor Department
Globe Staff Labor Market Studies

Manager Segregates Duties

Diversity the goal
of unusual program

SLIGHTLY THERE
Tennis: Final match with eight hours, starting at 10:30 a.m. (10:30-11:30 a.m.)
Tennis: Women's Singles, 1st Round, starting at 11:30 a.m. (11:30-12:30 p.m.)
Horse Show: 11:30 a.m. to 4:45 p.m.
Show: 7:00 p.m. to 9:45 p.m.
Pops: 8:00 p.m. to 10:00 p.m.

“It can’t happen in my office”



Case #1

Nature of Incident

Forged signature on direct payment check

Background

- Client did not receive his direct payment check in the mail.

Actions taken

- The LAA contacted their bank and it was determined that the check had been cashed.
- The LAA received a copy of the cashed check from the bank. The check had two signatures, the client and another individual. The check was deposited into the other individual's bank account.
- Client stated he did not know the other individual and completed a notarized affidavit of fraud report.
- Affidavit was forwarded to the LAA's bank.

Resolution

- The LAA issued client a replacement check.
- Client was required to come to LAA to sign for and pick up the check.
- The banks pursued this matter.

Case #2

Nature of Incident

Unreported household member

Background

During weatherization staff home visit, it was discovered that client had a roommate that was not included on application.

Actions taken

- Weatherization staff reported roommate to Fuel LAA staff.
- A stop payment was issued immediately on the account.
- The vendor was notified to make no further deliveries on behalf of fuel assistance.
- A letter was issued to the client requesting information on the roommate.

Resolution

- Client informed the LAA to he was no longer interested in receiving the benefit.
- No further information was submitted regarding the roommate.
- Note was made on file of the outstanding recoupment amount.
- If client applies in future, necessary recoupment action will be taken.

FY 2015 LIHEAP Fraud and Investigation Reporting Form

In the event that a payment has been made and it is discovered that a willful, purposeful deceit of the LIHEAP involving agency, clients, staff and/or vendors may have occurred, this form shall be completed by LAAs and submitted to DHCD within 3 days of the discovery.

Agency Name: _____ Date of This Report Person completing _____

form: ¹ _____ Date of Original Report: _____

Contact Telephone: _____ Contact Email: _____

LIHEAP Application #: _____ Head of Household Name: _____

of ~~xxx~~ client on LIHEAP: _____ Current FY benefit amount: _____

Nature of the Incident

Please describe the important facts, including:

- ☐ What is the nature of the incident issue? Explain the situation.
- ☐ How was it discovered?
- ☐ When was it discovered?
- ☐ Who discovered it?

Background

If the fraud or deliberate improper payment involves the agency or a client household, please state the necessary information to provide a *general understanding* of the nature of the incident. E.g., falsification of checks, number of people in household, relationship(s), housing type, income, fuel type, etc. State the amount of benefit a client has and/or payment amount a vendor received from the current fiscal year. Please indicate the number of program years in question with the total amount of LIHEAP benefits (potentially) involved.

Actions taken

Please describe the actions (including dates) taken by the LAA to investigate the situation, including:

- ☐ Identify outside parties (by name and agency) that were contacted as part of the investigation and date(s) when the contact(s) occurred:
 - ☐ Client
 - ☐ Vendor
 - ☐ Police
 - ☐ Attorney General
 - ☐ District Attorney Office
 - ☐ Better Business Bureau
 - ☐ Other
- ☐ Detail the action and/or response of outside parties contacted.
- ☐ ~~Involvement of agency staff; include names.~~

Update of situation (order by date)

When there is a change of status, please provide an update to DHCD and ensure to include description of further actions that have been taken or have occurred since the last report filed.

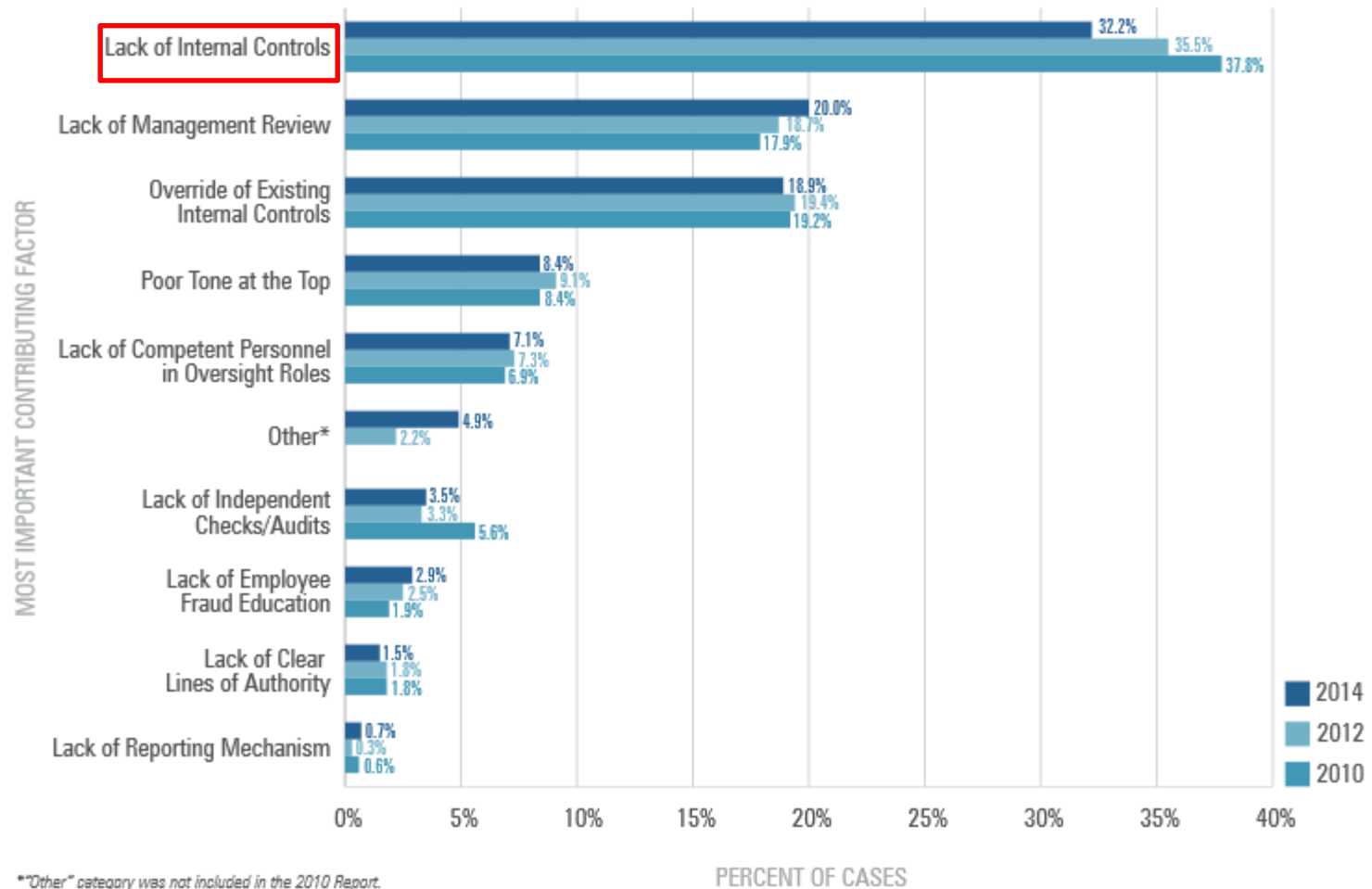
Final Resolution

State final outcome of this incident.

A close-up photograph of a hand turning a circular dial on a dark-colored device. The dial has a scale with numbers, including '90' and '0'. The hand is positioned on the right side of the frame, with fingers gripping the dial. The background is slightly blurred, showing parts of the device and another hand at the bottom. Overlaid on the left side of the image is the text 'Fraud Prevention' in a green, serif font.

Fraud Prevention

Figure 39: Primary Internal Control Weakness Observed by CFE



Internal Controls

- Update your Internal Control System (per [Chapter 647 of the Acts of 1989](#)), consisting of the Internal Control Plan and the policies and procedures that govern your daily activities
- Attend our “[Risk Management](#)” course for Internal Control guidance

Tone at the Top

The atmosphere created at the top affects the attitude of all employees:

- Employees witness what their bosses are doing
- Conveys the importance of integrity, competence and internal controls
- Zero tolerance for unlawful, unethical, or questionable behavior
- Establishes a culture that encourages
 - Questions
 - Opinions
 - Expressions of concern

Ethics Statement / Code of Conduct

- **Define** the culture
- **Set** expectations
- **Remind** employees about their roles and responsibilities for maintaining an ethical work environment
- **Maintain** awareness of reporting mechanisms available to employees
- **Reinforce** the ramifications of improper or unacceptable behavior in order to deter others from similar actions

Segregation of Duties

Verify that segregation of duties are in place:

- Apply consistently across the agency and in all locations.
- Example - Reconciliation of balances and activities is performed by someone who does not report them.

If resource constraints prevent adequate segregation of duties:

- Cross-train
- Job rotation
- Add additional sign off / review
- Think creatively; share duties with other areas / units / departments
- Back up Friday

Best Practices

Provide taxpayers assurance that tax dollars are spent for their intended purposes:

- **Implement an Anti-Fraud Strategy**
 - Awareness of Red Flags
 - Practice Professional Skepticism
 - Review access to systems
 - Ethics Statement/Code of Conduct
 - Segregation of duties
- **Internal Control Plan**
 - Document (Policies, Procedures, Memos)
 - Communicate (Meetings, Trainings)
 - Demonstrate (Lead by Example)
- Adhere to policies and procedures
- Report violations

Thank You!

Comptroller Help Desk

617-973-2468

Comptroller.info@state.ma.us

